

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name North Shade Township	County Gratiot
Fiscal Year End 3/31/06	Opinion Date 6/5/06	Date Audit Report Submitted to State 6/30/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Township of North Shade
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Township of North Shade

Gratiot County, Michigan

March 31, 2006

BOARD OF TRUSTEES

John Friesen

Supervisor

Dale Simmet

Clerk

Scott Friesen

Treasurer

Kim Duflo

Trustee

John Peck

Trustee

Township of North Shade

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of North Shade
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Township of North Shade, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Township of North Shade, Michigan as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 5, 2006

BASIC FINANCIAL STATEMENTS

Township of North Shade
STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 43,503
Receivables	2,592
Prepays	<u>2,972</u>
Total current assets	49,067
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>12,864</u>
TOTAL ASSETS	61,931
LIABILITIES	<u>-</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,864
Unrestricted	<u>49,067</u>
TOTAL NET ASSETS	<u><u>\$ 61,931</u></u>

See accompanying notes to financial statements.

Township of North Shade
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Governmental activities				
General government	\$ 27,915	\$ 425	\$ 4,800	\$ (22,690)
Public safety	9,742	-	-	(9,742)
Public works	44,621	-	-	(44,621)
Community and economic development	1,170	-	-	(1,170)
Other	4,995	-	-	(4,995)
Total governmental activities	<u>\$ 88,443</u>	<u>\$ 425</u>	<u>\$ 4,800</u>	(83,218)
General revenues:				
Property taxes				49,149
State shared revenue				50,589
Investment earnings				<u>401</u>
Total general revenues				<u>100,139</u>
Change in net assets				16,921
Net assets, beginning of the year				<u>45,010</u>
Net assets, end of the year				<u>\$ 61,931</u>

See accompanying notes to financial statements.

Township of North Shade
GOVERNMENTAL FUND BALANCE SHEET
March 31, 2006

	<u>General</u>
ASSETS	
Cash	\$ 43,503
Taxes receivable	2,592
Prepays	<u>2,972</u>
TOTAL ASSETS	<u><u>\$ 49,067</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Reserved for prepaids	2,972
Unreserved - undesignated	<u>46,095</u>
TOTAL FUND BALANCE	<u>49,067</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 49,067</u></u>

See accompanying notes to financial statements.

Township of North Shade

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance - governmental fund \$ 49,067

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 13,862	
Accumulated depreciation is	<u>(998)</u>	
Capital assets, net		<u>12,864</u>
Net assets of governmental activities		<u><u>\$ 61,931</u></u>

See accompanying notes to financial statements.

Township of North Shade

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND

Year Ended March 31, 2006

	<u>General</u>
REVENUES	
Taxes	\$ 49,149
Licenses and permits	420
Intergovernmental	50,589
Charges for services	5
Interest and rents	<u>401</u>
TOTAL REVENUES	100,564
EXPENDITURES	
Current	
General government	35,979
Public safety	9,742
Public works	44,621
Community and economic development	1,170
Other	<u>4,995</u>
TOTAL EXPENDITURES	<u>96,507</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,057
Fund balance, beginning of year	<u>45,010</u>
Fund balance, end of year	<u><u>\$ 49,067</u></u>

See accompanying notes to financial statements.

Township of North Shade

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balance - governmental fund \$ 4,057

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	9,062	
Depreciation expense	<u>(998)</u>	
Excess of capital outlay over depreciation expense		8,064

Some items reported in the statement of activities are not available to finance expenditures of the fiscal period and therefore are not reported as revenues in the governmental funds. These activities consist of:

Capital contribution	<u>4,800</u>
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Change in net assets of governmental activities	<u>\$ 16,921</u>
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See accompanying notes to financial statements.

Township of North Shade
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Shade Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Gratiot County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 30); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of North Shade. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of North Shade Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements).

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's only governmental fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Township has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a functional level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted and amended by the Township Board during the year. The amendments to the originally adopted budget were not material.

6. Cash

Cash consists of checking and savings accounts.

Township of North Shade
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Tax

North Shade Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Gratiot County Treasurer on March 1. The Gratiot County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for roads. For the year ended March 31, 2006, the Township levied 0.9832 mills per \$1,000 of assessed valuation for general governmental services and 0.9771 mills for roads. The total taxable value for the 2005 levy for property within the Township was \$21,397,643.

8. Capital Assets

Capital assets consist of building improvements and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation for the building improvements is computed using the straight-line method over 20 years, and depreciation for the equipment is computed using the straight-line method over 5 years.

9. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Township of North Shade
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE B: CASH - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, the carrying amount of the Township's deposits was \$43,503 and the bank balance was \$43,503, which was fully covered by federal depository insurance.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2006, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Township of North Shade
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

Governmental activities

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2006</u>
Capital assets being depreciated:				
Building improvements	\$ -	\$ 9,062	\$ -	\$ 9,062
Equipment	<u>-</u>	<u>4,800</u>	<u>-</u>	<u>4,800</u>
Subtotal	-0-	13,862	-0-	13,862
Less accumulated depreciation				
Building improvements	-	(38)	-	(38)
Equipment	<u>-</u>	<u>(960)</u>	<u>-</u>	<u>(960)</u>
Subtotal	<u>-0-</u>	<u>(998)</u>	<u>-0-</u>	<u>(998)</u>
Net capital assets - governmental activities	<u>\$ -0-</u>	<u>\$ 12,864</u>	<u>\$ -0-</u>	<u>\$ 12,864</u>

Depreciation expense was charged to the general government activity on the statement of activities.

NOTE D: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is the fund balance reserve as of March 31, 2006:

General Fund	
Reserved for prepaids	<u>\$ 2,972</u>

NOTE E: PENSION PLAN

North Shade Township is the sponsor of a defined contribution retirement plan for the sole benefit of its employees. The Manulife Financial Defined Contribution Pension Plan for Government Employees is a money purchase defined contribution pension benefit plan. Contributions are based on a preestablished wage-based contribution schedule.

All members of the Township Board, the Deputy Clerk, the Deputy Treasurer, and the Zoning Officer are eligible. There are no age or service requirements.

Normal retirement age is 65 or, if later, completion of 10 years of participation in the plan. Benefits attributable to employer contributions shall be 100% vested upon a participant's death, disability, or normal retirement, or upon termination of the plan. Upon termination of a participant's service, for other than the above, such benefits shall vest 100% immediately. Early retirement age is 55 and any benefits will vest 100% upon early retirement.

The current year covered payroll was \$22,605 and the total payroll for the current year was \$23,205. Original contributions are based on the estimated covered payroll and are subsequently adjusted based on actual covered payroll.

Township of North Shade
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE E: PENSION PLAN - CONTINUED

Contributions to the plan during the fiscal year ended March 31, 2006, were \$3,841, which consisted of \$1,695 contributed by the participants and \$2,146 contributed by the Township.

A mandatory after-tax contribution of 7.5% is required for each plan participant. Additional after-tax contributions ranging from 1% to 10% of compensation are allowed.

NOTE F: RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Township carries commercial insurance. The Township also maintains commercial insurance to minimize risk of loss due to workers' compensation claims.

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule, the Township's budgeted expenditures in the General Fund have been shown at the activity level. The approved budgets of the Township have been adopted at the activity level for the General Fund.

During the year ended March 31, 2006, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General government			
Legislative	\$ 2,600	\$ 3,005	\$ 405
Clerk	7,200	7,333	133
Treasurer	8,700	9,234	534
Elections	-	188	188
Hall and grounds	9,400	9,687	287
Public works			
Drains	6,500	6,560	60
Community and economic development			
Zoning board	1,000	1,170	170

REQUIRED SUPPLEMENTARY INFORMATION

Township of North Shade

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 40,200	\$ 40,200	\$ 49,149	\$ 8,949
Licenses and permits	500	500	420	(80)
Intergovernmental	49,250	49,900	50,589	689
Charges for services	-	-	5	5
Interest and rents	250	250	401	151
TOTAL REVENUES	90,200	90,850	100,564	9,714
EXPENDITURES				
General government				
Legislative	2,600	2,600	3,005	(405)
Supervisor	5,500	5,000	5,000	-0-
Clerk	7,700	7,200	7,333	(133)
Board of review	630	630	510	120
Treasurer	8,700	8,700	9,234	(534)
Assessor	8,718	8,718	471	8,247
Elections	500	-	188	(188)
Hall and grounds	6,000	9,400	9,687	(287)
Other	5,300	5,300	551	4,749
Total general government	45,648	47,548	35,979	11,569
Public safety				
Fire protection	12,000	12,000	9,742	2,258
Public works				
Highways and streets	39,261	39,261	38,061	1,200
Drains	6,500	6,500	6,560	(60)
Total public works	45,761	45,761	44,621	1,140
Community and economic development				
Zoning board	2,250	1,000	1,170	(170)
Other				
Insurance and bonds	3,000	3,000	2,849	151
Pension	4,000	4,000	2,146	1,854
Total other	7,000	7,000	4,995	2,005
TOTAL EXPENDITURES	112,659	113,309	96,507	16,802
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(22,459)	(22,459)	4,057	26,516
Fund balance, beginning of year	45,010	45,010	45,010	-0-
Fund balance, end of year	\$ 22,551	\$ 22,551	\$ 49,067	\$ 26,516

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

To the members of the Township Board
Township of North Shade
Perrinton, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Township of North Shade for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Township's internal controls and our discussions with management.

1. The Township should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Township develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.
- b. Accounting policies and procedures manual - We suggest the Township document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipt and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids.

2. The Township should adopt and implement a fraud risk management program.

During our discussions with management, we noted that the Township does not have a formal risk management program. Lack of policies and procedures related to fraud risk could potentially allow fraud to occur and be unreported or undetected.

We suggest the Township adopt a formal fraud risk management program. The program should include policies and procedures on ways for management to prevent, detect, and deter fraudulent activities.

3. The Township should assure that payroll information is reported to the Internal Revenue Service on a quarterly basis.

During the course of our audit, we noted that the Township is not currently filing a Form 941 with the Internal Revenue Service. Form 941 reports to the IRS the Township's quarterly payroll information. This sum of the information reported on the four quarterly 941 forms should agree with the information that is reported to the IRS on Form W-3 on an annual basis.

We suggest the Township assure that payroll information is appropriately reported to the Internal Revenue Service on a quarterly basis, utilizing the IRS Form 941.

4. The Township should monitor and amend budgets as necessary.

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated in the General Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Board shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We suggest that the Township adopt and amend its budget through Board resolution and monitor budgeted against actual expenditures.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated June 5, 2006.

This report is intended solely for the use of management and the Board of Trustees of the Township of North Shade and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 5, 2006